

STATE ENERGY PROGRAM NOTICE 03-1
EFFECTIVE DATE: February 21, 2003

SUBJECT: PROGRAM YEAR 2003 STATE ENERGY PROGRAM FORMULA GRANT GUIDANCE

PURPOSE: To establish grant guidance and management information for the State Energy Program formula grants for program year (PY) 2003.

SCOPE: The provisions of this guidance apply to States, Territories and the District of Columbia (hereinafter "States") applying for formula grant financial assistance under the Department of Energy's (DOE) State Energy Program (SEP). Much of the information in this guidance is summarized from the volumes of the Code of Federal Regulations (CFR) applicable to SEP, namely 10 CFR part 420 (covering the State Energy Program) and 10 CFR part 600 (the DOE Financial Assistance Rules). The CFR can be accessed at:

<http://www.access.gpo.gov/nara/cfr/>.

These regulations are the official sources for program requirements.

PROGRAM PRIORITIES IN PY 2003:

Unobligated Carryover: In FY 2003, we want to emphasize the importance of **budgetary accountability**, with particular emphasis on reducing large amounts of carryover. In any fiscal year, States are advised to expend their allocations. This fiscal year, States carrying forward 25% or more of the prior year's federal formula allocation will need to provide the appropriate Regional Office with a plan on how to expend the carryover in PY 03. Regional Offices will monitor compliance with the carryover plan. **Allocations for FY 2004 may be impacted for those States that continue to carry over large unobligated balances.** (See 10CFR 600.212, Special Grant or Subgrant Conditions for High-Risk Recipients.)

21st Century Strategic Plan: DOE will support the continued implementation of the SEP 21st Century Strategic Plan, which was developed collaboratively with SEP state and federal representatives and was published in February, 2000. We strongly encourage States to design and/or reinforce State plan activities that address the three key goals identified in that Plan. The three key goals are:

1. Maximize energy, environmental and economic (EEE) benefits through increased collaboration at the Federal, State and community level.
2. Increase market acceptance of energy efficiency and renewable energy technologies, practices, and products.

3. Use innovative approaches to reach market segments and meet policy goals not typically address by market-based solutions.

Detailed guidance on some recommended optional activities that would particularly address each of these key goals was issued in the November, 2000 SEP Strategic Plan Implementation Plan.

The Implementation Plan is available at:

http://www.eere.energy.gov/buildings/state_energy/strategic_implementation.html

The Implementation Plan also outlined a number of activities that DOE would undertake to support the States as they develop and carry out programs that will contribute to the three key goals. A number of these have already been carried out. In FY 2003, we call particular attention to the following four activities:

SEP Metrics: The Oak Ridge National Laboratory (ORNL) recently completed a report estimating annual energy and cost savings for the SEP program, based on data from States who completed the NASEO/ORNL Enumeration Indicators Survey. Results will be disseminated to the States and be utilized in supporting the FY 2004 Budget Request. The culmination of several years' work, this report gives us and additional tool to estimate the energy and cost benefits of our activities. The report shows the significant value delivered by the programs and the State and Territory Energy Offices. Most striking is the ORNL finding that each \$1 of SEP fundings results in \$7.23 in annual cost savings for the citizens and businesses served by the States. This comprehensive National Laboratory analysis, Estimating Energy and Cost Savings and Emission Reduction for the State Energy Program Based on Enumeration Indicator Data, is the most in-depth metrics effort to date. DOE encourages States to continue to support this important metrics activity.

SEP Program Managers Website: The SEP Corner Café is a clearinghouse for exchange of information about what States are doing in energy efficiency and renewable energy, and a place to share ideas about improving these programs in the States. The website was developed in response to States' requests for such a tool during discussions on the SEP Strategic Plan. The website is available at:

www.eren.doe.gov/buildings/state_energy/corner_cafe.html

Strategic Review: During 2002, with valuable help and input from the States, DOE completed a Strategic Review of the SEP program. This review resulted in a several recommendations for improving the administration and effectiveness of SEP. DOE HQ will be working with the Regional Offices to provide technical and financial assistance in such areas as strategic planning, marketing and evaluation.

Reporting Requirements: Also in FY 2003, in line with the E-Government initiative, DOE and the States will complete a review and streamlining of the reporting requirements for SEP. (For now, reporting requirements remain unchanged.)

LEGISLATION: SEP is authorized under PL 94-385, PL 94-163, PL 95-619, PL 94-580, PL 101-440, and PL 102-486. All grant awards made under this program must comply with applicable legislation.

REGULATIONS: SEP is governed by its program regulations (10 CFR part 420) published in the Federal Register on July 8, 1996, and amended in the Federal Registers dated May 14, 1997, August 24, 1999, and May 1, 2000, and the DOE Financial Assistance Rules (10 CFR part 600).

1.0 FUNDING

1.1 GENERAL FUNDING: PY 2003 funding for SEP, requiring DOE approval for expenditure, can come from three sources: (1) Federally appropriated funds; (2) Warner, EXXON and similar petroleum violation escrow funds; and (3) Stripper Well and other oil overcharge funds (including Texaco) which are subject to Stripper settlement rules.

1.2 FORMULA ALLOCATION: PY 2003 formula allocations consist of \$44,500,000 from SEP funds appropriated in FY 2003. The SEP rule (section 420.11(b)(4)(ii)) requires that the most recent available data be used in the population and energy consumption portions of the formula for allocating funds above the \$25.5 million base amount. Attachment 1 provides the final SEP State formula allocations for program year 2003. Data from the 2000 census was used to calculate these allocations.

(See section 420.11 for the allocation process.)

1.3 MATCH: States must contribute (in cash, in kind, or both) an amount no less than 20% of their total Federal formula award.

(See section 420.12 regarding match.)

1.4 PETROLEUM VIOLATION ESCROW (PVE) ACTIVITIES FUNDED UNDER SEP: Depending on the authority of PVE funding, new and modified PVE funded SEP initiatives must be approved in writing, prior to implementation, by the Regional Office. Stripper Well activities require review by DOE Headquarters.

2.0 APPLICATIONS FOR SEP GRANTS

2.1 APPLICATION REQUIREMENTS: States may submit applications electronically, using WinSAGA, or by hard copy and a diskette. The DOE Regional Offices are always available to answer specific questions and to provide guidance on application procedures.

Required forms are available in "Word" format at the following DOE Golden Field Office website:

<http://www.golden.doe.gov/businessopportunities.html>

Required application forms include:

- Standard Form 424, Application for Federal Assistance
- Federal Assistance Budget Information Form, DOE F 4600.4
- Budget Explanation Form, GO-PF20a

All applicants that have not previously submitted the following forms to the Master Documents File should submit:

- US DOE Assurance of Compliance, DOE 1600.5
- Certifications Regarding Lobbying; Debarment; Suspension and Other Responsibility Matters; and Drug-free Workplace Requirements; FA-Certs
- Disclosure of Lobbying Activities, SF-LLL, if applicable
- For the Annual File part of the State Plan:
 - Narrative Activity Worksheets for each planned PY03 SEP Formula Grant Activity
- Master File (if revised since last submission)

States not applying via WinSAGA (i.e., those that are filing paper copies) should check with their DOE Regional Office regarding the format and forms to be used in their applications.

In addition, States submitting paper copies must provide a cover letter with the application that includes narrative outlining any amendments to activities carried over from the previous year's plan, and any new program activities.

States applying via WinSAGA would address changes and new activities under the comment section of the budget. Here again, please check with your Regional Office if you have questions about how this should be done.

(See section 420.13 for application requirements.)

2.2 APPLICATION DUE DATE: Applications for SEP formula grants should be submitted by each State on a date established by its DOE Regional Office.

2.3 REQUESTS FOR EXTENSION: If a State determines that it cannot meet the submission date for the formula award portion of SEP, a written request must be submitted to the Regional Office 15 days prior to the application due date. The request should specify the time period needed and the reasons for the delay. An extension will be granted if reasonable justification is provided.

(See section 420.13(c).)

3.0 STATE PLAN

3.1 STATE PLAN CONTENTS: The State Plan consists of an Annual File, covering the activities that the State is intending to undertake during the year of the grant, which must be updated each year to reflect that year's activities, and the Master File, covering items that generally don't change from year to year, which would need to be updated only when a change occurs.

The Annual File section of the State Plan includes the required information for each program activity for which the State is requesting financial assistance for a given year, including budget information and milestones for each activity, and the intended scope and goals to be attained either qualitatively or quantitatively.

The Master File includes a description of the energy goals that the State wants to achieve, including, wherever practicable, an estimate of how implementing the plan will conserve energy, how the State will measure progress toward attaining the goal, and how the program activities represent a strategy to achieve these goals; an explanation of how the plan satisfies the minimum criteria for the required (mandatory) activities; and a plan for State monitoring that describes how the State conducts the administrative and programmatic oversight activities for programs implemented by other agencies within the State, contractors employed by the State, or subrecipients of financial assistance from the State. If a State has completed certain mandatory activities, this may also be indicated in the Master File—separate Activity Worksheets need not be maintained for each one.

(See section 420.13 for more specific requirements on State Plans.)

3.2 STATE PLAN ACTIVITY CODES: States shall identify program activities under the function and activity categories developed for WinSAGA, the Office of Weatherization and Intergovernmental Program's data base. Use of the function and activities categories will assist DOE in both tracking grant-funded activities and gathering information on State progress. DOE is often required to provide analyses, justifications and recommendations based on the information provided by the States.

The use of the function and activity categories will also assist in developing performance metrics for each activity. The function and activity categories can be found in the Annual File section of WinSAGA. This information will be impacted in the streamlining of the SEP reporting requirements.

3.3 INSTITUTIONAL CONSERVATION PROGRAM (ICP)-TYPE ACTIVITIES: States are encouraged to address the energy efficiency and renewable energy concerns of schools and hospitals. States may include program activities in their State Plans to continue ICP-type activities that were previously implemented under the separate ICP. Under SEP, States may develop their own strategies and requirements to implement ICP-type activities under the SEP rules. The ICP Rule (10 CFR part 455) does not apply to ICP-type activities funded under SEP.

3.4 MANDATORY REQUIREMENTS: The following activities and details on compliance are required in each State Plan:

- (a) establish mandatory lighting efficiency standards for public buildings;
- (b) promote carpools, vanpools; and public transportation;
- (c) incorporate energy efficiency criteria into procurement procedures;
- (d) implement mandatory thermal efficiency standards for new and renovated buildings, or in States that have delegated such matters to political subdivisions, adopt model codes for local
- (e) governments to mandate such measures;
- (f) permit right turns at red traffic lights and left turns from a one-way street onto a one-way street at a red light after stopping; and
- (g) ensure effective coordination among various local, State and Federal energy efficiency, renewable energy and alternative transportation fuel programs within the State.

(See section 420.15 for more specific requirements on mandatory activities.)

3.5 OPTIONAL PROGRAM ACTIVITIES: States may wish to consider the following program areas for inclusion in their State Plans:

- Programs of public education to promote energy conservation.
- Programs to increase transportation energy efficiency, including programs to accelerate the use of alternative transportation fuels for State government vehicles, fleet vehicles, taxis, mass transit, and privately owned vehicles. Contact your Regional Office for related information on the Clean Cities Program.
- Programs that encourage the introduction of energy saving technologies in the industry, buildings, transportation and utility sectors and encourage State and industry partnerships that develop and demonstrate advances in energy efficiency and clean technologies. Contact your Regional Office for related information on the Inventions and Innovation (I&I) and National Competitiveness through Energy, Environment, and Economics (NICE3) activities.
- Programs for financing energy efficiency and renewable energy capital investments, projects and programs, which may include loan programs and performance contracting programs for leveraging additional public and private sector funds, and programs which allow rebates, grants, or other incentives for the purchase and installation of eligible energy efficiency and renewable energy measures in public or nonprofit buildings owned and operated by a State, a political subdivision of a State or an agency or instrumentality of a State, or an organization exempt from taxation under section 501(c)(3) of the Internal Revenue Code of 1986, including public and private non-profit schools and hospitals, and local government buildings.
- Programs for encouraging and for carrying out energy audits with respect to buildings and industrial facilities (including industrial processes) within the State.
- Programs to promote the adoption of integrated energy plans which provide for periodic evaluation of a State's energy needs, available energy resources (including greater energy efficiency) and energy costs; and utilization of adequate and reliable energy supplies, including greater energy efficiency, that meet applicable safety, environmental, and policy requirements at the lowest cost.

- Programs to promote energy efficiency in residential housing, such as programs for development and promotion of energy efficiency rating systems for newly constructed housing and existing housing so that consumers can compare the energy efficiency of different housing; and programs for the adoption of incentives for builders, utilities, and mortgage lenders to build, service, or finance energy efficient housing.
- Programs to identify unfair or deceptive acts or practices which relate to the implementation of energy efficient and renewable resource energy measures and to educate consumers concerning such acts or practices.
- Programs to modify patterns of energy consumption so as to reduce peak demands for energy and improve the efficiency of energy supply systems, including electricity supply systems.
- Programs to promote energy efficiency as an integral part of economic development and environmental planning conducted by State, local, or other governmental entities or by energy utilities.
- Programs to provide training and education to building designers and contractors to promote building energy efficiency.
- Programs for the development of building retrofit standards and regulations.
- Programs to provide support for feasibility studies for the utilization of renewable energy and energy efficiency resource technologies.
- Programs to encourage the use of renewable energy technologies.
- Programs that partner with other State agencies to leverage additional funds, such as public benefits funds and State and local investments in Clear Air Act compliance.
- Programs that promote international energy efficiency and renewable energy technology markets through the development of market transformation guidelines and project implementation.

(See section 420.17 for more specific requirements on optional activities.)

3.6 STATE ENERGY EMERGENCY PLANS:

The State Energy Conservation Program Improvement Act of 1990 (P.L. 101-440) required that States file, in conjunction with the SEP State Plan, an energy emergency plan detailing implementation strategies for dealing with energy emergencies. For States that may want to update these plans, EERE and DOE's Office of Emergency Management have developed model guidelines for incorporating energy efficiency and renewable energy technologies into a State's energy emergency plan. Contact your Regional Office for a copy of those guidelines.

3.7 EXPENDITURE PROHIBITIONS AND LIMITATIONS: States are prohibited from using SEP financial assistance:

- (a) for construction, such as construction of mass transit systems and exclusive bus lanes, or for the construction or repair of buildings or structures;
- (b) to purchase land, a building or structure or any interest therein;
- (c) to subsidize fares for public transportation;

- (d) to subsidize utility rate demonstrations or State tax credits for energy conservation or renewable energy measures; or
- (e) to conduct or purchase equipment to conduct research, development or demonstration of energy efficiency or renewable energy techniques and technologies not commercially available.

No more than 20 percent of the financial assistance awarded to the State for this program shall be used to purchase office supplies, library materials, or other equipment whose purchase is not otherwise prohibited.

Demonstrations of commercially available energy efficiency or renewable energy techniques and technologies are permitted and are not subject to the construction prohibition or the 20% on equipment, and direct purchase limitations.

A State may use regular or revolving loan mechanisms to fund SEP services which are consistent with the SEP rule and which are included in the approved State plan. Loan repayments and interest on loan funds may be used only for activities which are consistent with the rule and are included in the State's approved plan.

A State may use funds for the purchase and installation of equipment and materials for energy efficiency measures and renewable energy measures, subject to the following:

- use must be included in State's approved plan (and if PVE funds are used, the use must be consistent with any judicial or administrative terms and conditions imposed upon State use of such funds).
- such use is limited to no more than 50% of all funds allocated by the State to SEP in any given year, regardless of source, except that this limitation shall not include regular and revolving loan programs funded with PVE funds. States may request a waiver of the 50% limit from DOE for good cause, and should check with their DOE Regional Office about the process for doing so, if they are considering this. For regular and revolving loan funds, loan documents shall ensure repayment of principal and interest within a reasonable period of time, and shall not include provisions for loan forgiveness.

Funds may be used to supplement and no funds may be used to supplant weatherization activities under the Weatherization Assistance Program for Low-Income Persons.

(See section 420.18 for more detailed expenditure prohibitions and limitations.)

4.0 REPORTING: Following are the three quarterly reports that States are required to file:

- Financial Status Report, Standard Form 269
- Federal Cash Transactions Report, Standard Form 272
- Program Status Report

In addition, the optional DOE Success Story Report continues to make a valuable contribution in relating the impacts of the program.

Forms are also available in “Word” format at the following DOE Golden Field Office website:

<http://www.golden.doe.gov/businessopportunities.html>

DOE requests that the Program Status Report be submitted electronically through WinSAGA, if at all possible.

With all aspects of the SEP formula grant application process, States are encouraged to consult with their DOE Regional Office if they have questions or need additional information, or copies of forms, etc.

John Millhone, Director
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Attachments: State Formula Allocations